RESEARCH PLAN PROPOSAL

"PROFITABILITY ANALYSIS OF URBAN COOPERATIVE BANKS IN RAJASTHAN"

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Submitted By:

Ms. Shachi Pareek
Enroll. No. : ICG/2011/11677

Under the Supervision of:

Dr. Shweta Gupta
Sr. Assistant Professor
Dept. of Accounting and Taxation

Department of Management

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Profitability Analysis of Urban Cooperative Banks in Rajasthan

Introduction

The Co-operative sector in Indian Economy strikes a golden mean between the private sector on the one hand, and the governmental organisations on the other. Unlike the former, profit-making is not the sole objective of the co-operative sector, and unlike the latter, it is saved from the evils of unresponsive bureaucratic structure. Rather, the co-operative structure combines the merits of freedom and flexibility of private organisations, and purposiveness of social objectives of the governmental organisations.

The Co-operative Credit institutions are categorised into two main categories: Urban Cooperative Banks and Rural Cooperative Credit Institutions. The Urban Cooperative Banks are further bifurcated into Scheduled and Non- Scheduled banks. Out of these the Non- Scheduled Banks in Jaipur, constitute the scope of the study.

The Urban Co-operative banking is the only sector in the co-operative movement which, without receiving any assistance from the state and central governments, has been striving to solve the economic problems of the economically weaker sections of the society. However, the Urban Cooperative movement is not free from organisational and operational problems. As such, it is essential to carry out a systematic study with regards to this sector. Majority of the operational problems deal with the financial dimension, which can be encountered through a sound financial analysis. The same will be done through profitability analysis of these banks.

Profitability refers to the profit making ability of the enterprise. It is expressed as a percentage of profit to working funds. The *profitability of* the banks depends upon its *allocational* and *operational efficiency*. '*Allocational efficiency'* refers to the efficient allocation of funds by an institution among the competing demands. '*Operational efficiency'* refers to the difference between the rates at which the funds are raised and deployed. Such an analysis will be based on a variety of ratios calculated with reference to working capital.

The profitability study of these banks will help in suggesting useful measures to improve the financial health of Urban Cooperative Banks. The study will also turn out to be helpful testing the viability of these banks.

Review of Literature

Though not much has been contributed by the academicians and researchers about the profitability and productivity of Urban Cooperative Banks, some related studies on the same type of problem have been undertaken in the past. These include:

Sharma Geeta and Kawadia Dr. Ganesh , (2006), in their research paper titled "*Leadership through Performance: A DEA Analysis of Urban Cooperative Banks of Maharashtra (India)*", concluded that the efficiency indices can also be used for identifying the areas of inefficiency of a UCB. This will help the regulators to formulate suitable strategies and prevent the systematic failures of bank. Also their research has proved that the size of the UCB will have a direct bearing on the efficiency of the bank.

Shah Tarak, (2004-05), in his research paper titled "*Attaining zero Non-Performing Asset (NPA) by Transparency, Trust and & Service*", concluded that the profitability UCBs is highly sensitive to each and every small activity, the scale of operations being very small. Further the investment patterns of these banks also affect the profitability.

Mohan N., (2008), in his article titled "*A Changed Rating System for UCBs*", stated that the CAMELS rating model has helped Urban Cooperative Banks to be more responsive to risks and to follow the norms. This will help in preventing the failures of UCBs due to declining profitability.

Paranjothi T.and Ravichandran K., (2009), in their research paper titled "*Recent Trends and Development Problems and Prospects for Urban Co-operative Banks in India*", have given useful suggestions for improving the financial soundness of UCBs after studying their corresponding problems. These suggestions are:

1. Introduction of new grading norms by RBI.
2. To achieve the CRAR norms, the banks should improve its owned fund position.
3. The UCBs should focus more on the lending activities than investing activities.
4. Strong vetting procedure while scrutinizing the loan documents.

Kumawat M.L., (2009), in his conference on "*Urban Cooperative Banks Scam- the Loot from Within*", has explained how the fraudulent activities in Urban Cooperative Banks influence their profitability. Also he has highlighted the importance of CD ratio and Asset Classification Norms for UCBs.

Bhatt B.U., Shiyani R.L. and Patel N.M., in their case study titled "*A Case Study of Junaganth District Central Co-operative Bank*", has pointed out that effective C.D. ratio reflects the real picture of management of deposits and credit.

Kumar. Sanjib and Sharma Vinod, (2001), in their research paper titled "*Co-operative Credit-Revamping Needed"*, have emphasized that a successful financial institution especially a co-operative financial institution had to adopt itself to the changing needs in order to become sustainable.

Ramesh B. and. Patel M.R, (1999), in their research paper titled "*Performance Evaluation of Urban Co-operative Banks in India*", has recognized the vital elements for accessing the performance of UCBs. These elements are: number of branches, membership, share capital, reserves, deposits, borrowings, working capital, advances, over dues etc. The deficiency in the working of UCBs has highlighted the need for profitability analyses.

Suchak V. Nilesh, (2004), in his research paper titled "*Management of NPAs in India*" has proved that NPA is a very sensitive matter for the UCBs and has an adverse bearing on the profitability of these banks.

Dr. N. Ramu, (2011), in his research paper titled "*Financial Performance of Urban Co-operative Banks: A Study with Reference to Tamil Nadu*" has highlighted two major problems of UCBs - one is to improve their profitability and the other is to curtail their management cost. This research paper clearly justifies the viability of this research.

Sundararaman S., (2010), in his research paper titled "*Compromise Settlement of NPAs – How to do it Effectively?*" has highlighted the importance of Compromise Settlement as a solution for NPA management. It is a good tool for profitability improvement.

Raikar V. Avinash, (2005), in his research paper titled " *Urban Cooperative banks in India : An Assessment*", has proved that the profitability of UCBs has been affected by the Asset Classification and Provisioning norms and also the overall costs (expenses) are of a major concern in these banks.

Kumar Sharad and Sreeraramulu M.,(2007), in their research paper titled "*Employees' Productivity and Cost – A Comparative Study of Banks in India During 1997to 2008*" has pointed out that "per employee" indicators are useful "productivity indicators" in a bank which can give a clear picture of the bank productivity.

Sinha Swati , in her article titled "*Employee Productivity Performance Analysis of State Bank of India*.", has pointed out that various employee related factors (such as working funds per employee and operating profit per employee) can be analyzed to judge the productivity performance of a bank.

Parua Anupam and Joshi Lalit Kumar (2010), in their research paper titled "*Trends in Performance and Profitability of Co-Operative Banks: A Case Study of Vidyasagar Central Cooperative Bank Limited, Midnapore, West Bengal*", have identified that the major reasons that for declining profitability of the bank. They are:

- Slower rate of increase in bank's spread ratio in comparison to the burden ratio.
- Bank is inefficient in capturing new and different channels of banking business.
- The presence of non-performing assets has also posed a great problem for the bank.
- As the regime of interest rate cut was prevalent at that time, thus the banking operations were bound to suffer from profitability perspectives.

The same has implications for this research also.

Sanyal Paroma and Sharma Rashmi (2011), in their research paper titled "*Heckscher- Ohlin Theory: A Modern Approach*", have pointed out that one of the major causes for declining productivity is the competition factor. The study has proved that bank productivity is adversely affected as the competition increases.

Chander Ramesh and Chandel Jai Kishan (2010), in their research article titled " *Financial Viability and Performance Evaluation of Co-Operative Credit Institutions in Haryana (India)*" stated that the overall financial management in the cooperative credit institutions is poor. Also, the study has pointed out that the profitability of such institutes can be effectively measured through financial ratios.

Sherman H. David and Ladino George (1995), in their research paper titled "*Managing Bank Productivity Using Data Envelopment Analysis (DEA)*" have stated that benchmarking the financial performance of one branch might help in improving the productivity of other branches as well. But the benchmarking should be done scientifically.

Justification and Relevance of this Study

A number of researches have been undertaken which highlight the problems faced by Urban Cooperative Banks. Also, quiet many researches have been undertaken on the profitability and productivity of Commercial Banks. But no research has been undertaken to analyze the profitability and productivity dimension of Urban Cooperative Banks. However, the fact remains that Urban Cooperative Banks are also as good as Commercial Banks and hold a very important place in the cooperative institutional structure. All these facts have motivated the researcher to undertake this research work. This research will be of a great help to:

1. Urban Cooperative Banks

The research will carry out a thorough scrutiny of the financial performance of UCBs and will suggest measures for improvement.

This will help the banks to identify their weaknesses and improve their performance.

2. **Customers/Public/ Depositors**

This research will suggest measures for improvement for UCBs. If the UCBs will follow these measures effectively, then RBI may grant them "Scheduled" status. The same will help in building up the confidence of customers/depositors/public in Urban Cooperative Banks.

3. Reserve Bank of India

An analytical study of UCBs will help the banks to improve upon their profitability and productivity. Thus, the work of the regulator will be eased. Also, this will lead to the better compliance of norms by UCBs.

4. Academicians, researchers and students

The research will prove informative for academicians, students and reader interested in cooperative banking. The same will also help them to understand the financial problems of UCBs and their different dimensions.

Objectives

The main objective of the study is to analyse the profitability of Urban Cooperative Banks in Rajasthan. The broad objectives of the study can be summarised as:

1. To evaluate the profitability performance of the Urban Cooperative Banks operating in Jaipur district.

2. To analyze the impact of Non-Performing Assets (NPAs) on the profitability of these banks.

3. To analyze the size of the selected banks so as to assess its (size) impact on banks' profitability.

4. To examine the different factors contributing to the low/ high profitability of individual banks.

5. To examine the viability of the selected Urban Cooperative Banks.

Hypothesis

To meet the objectives of the study, following hypothesis shall be formulated and tested.

- The profitability of Urban Cooperative Banks in Jaipur has been uniform over the past five years.
- The Non-Performing Assets adversely affect the profitability of these Banks.
- The Urban Cooperative Banks in Jaipur are viable.
- Size of the Urban Cooperative Banks influence their profitability and productivity.

Plan of Work and Methodology

The plan of work explains how the research will be carried out in a logical sequence. Methodology of the research indicates the tools and techniques used for undertaking the research study.

Research Design

Research Design is a blueprint for the research which consists of enunciating the problem, formulating a hypothesis, collecting the facts or data, analyzing the facts and reaching certain conclusions either in the form of solutions towards the concerned problem or in the form of certain generalizations for some theoretical formulations. The research design for this study is stated as under:

Sample Design

Universe: It consists of all the Urban Cooperative Banks in Rajasthan.
Sample: It consists of all the Urban Cooperative Banks in Jaipur district.
Method of Sampling: Judgement Sampling

Collection of Data

Secondary Data: The study will be mainly supported by secondary data which will be collected from the annual reports of selected banks and annual reports of the Rajasthan Urban Co-operative Banks Federation, Jaipur.
Primary Data: The study mainly requires financial data and as such there will be no need for collecting primary data.

Analysis of Data

Both statistical and financial tools will be applied in order to support the hypothesis and derive suitable conclusions. Also the analysis will be supported by various tables and charts, which will help in tabulation and comparison of results respectively. The following tools will be used:

1. Ratio Analysis
2. Trend Analysis (Trend Ratios)
3. Chi-square test
4. Regression Analysis
5. Correlation Analysis
6. Measures of Central Tendency
7. Histograms, pie-charts, trend charts etc.

Place of Work and Facilities Available

The present study is aimed at studying the performance of Urban Cooperative Banks in Jaipur on the basis of their profitability.

The study will be mainly based on secondary data that will be collected from the annual reports of the selected banks and annual reports of the Rajasthan Urban Co-operative Banks Federation, Jaipur. A period of five financial years, ranging from 2005-2010, has been taken up as the time frame for the study.

In order to supplement the study, secondary data will also be collected from journals, magazines, newsletters, internet etc.

Limitations of the Study

Every research has its limitations so as its merits. This research is no exception to this and is prone to the following limitations:

1. Financial data collected for the present study is entirely secondary in nature. In such a case, the study carries all the limitations inherent with the secondary data.

2. It will not be possible to collect the branch-wise statistics from the annual reports. As such, each branch's profitability cannot be analyzed.

3. Most of the Urban Cooperative Banks do not maintain their websites. Thus, any kind of supporting data cannot be collected.

4. The study will be purely based on financial data. Not much consideration will be given to the qualitative dimension, which might also have some utility for this research.

Chapterisation

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Chapter 4. Ratio Analysis

Chapter 5. Trend Analysis

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Appendices

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